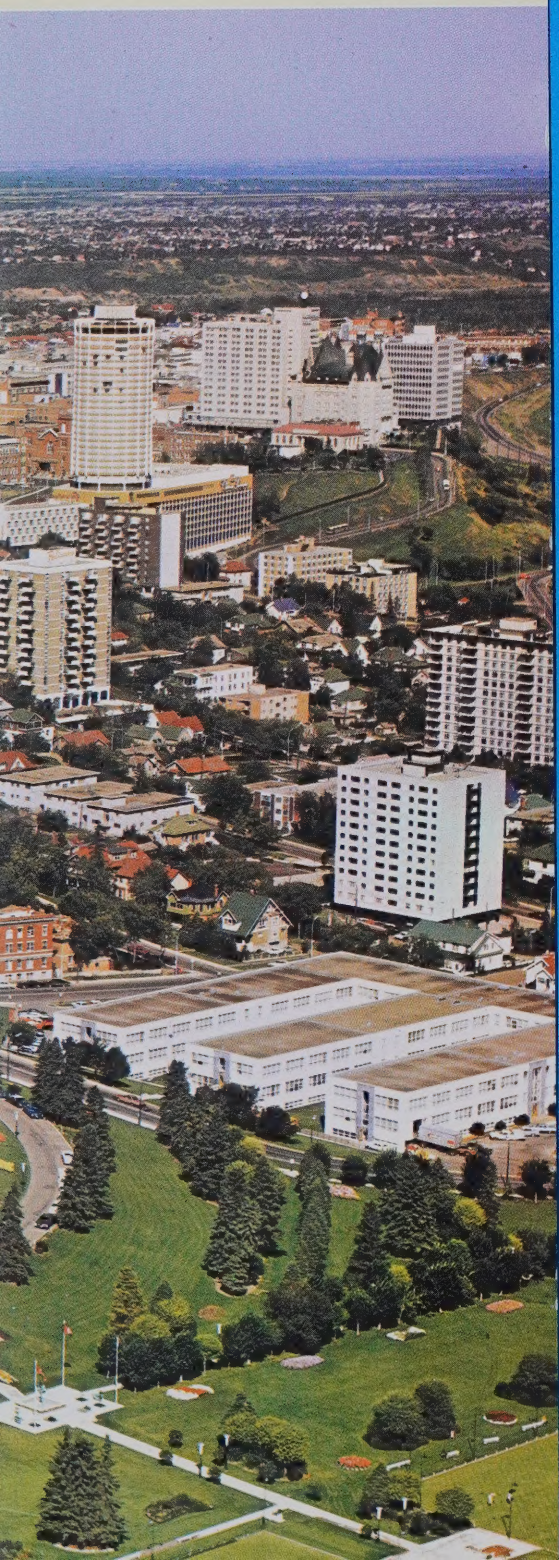
45th Annual Report 1968

NORTHWESTERN UTILITIES, LIMITED



EDMONTON'S EXPANDING HORIZONS

Heart of the business section of Edmonton, Alberta's capital, is seen on the cover of this report. Modern office buildings contrast vividly with the Alberta Legislative Building, officially opened in 1912. In 1956 Edmonton's population was just 226,000. Today it is in excess of 410,000 . . . after a record-breaking 1968 in which it led all cities in Canada with a 4.2% increase in population growth.

CONTENTS

NORTHWESTERN UTILITIES, LIMITED 10040 - 104 STREET, EDMONTON, ALBERTA, CANADA

Board of Directors

H. R. Milner, Q.C., Edmonton, Alberta, Honorary Chairman of the Board, Northwestern Utilities, Limited
D. B. Collier, Edmonton, Alberta, Vice-President and General Manager, Northwestern Utilities, Limited
J. C. Dale, Edmonton, Alberta, Chairman, Canadian Utilities, Limited
F. T. Jenner, Edmonton, Alberta, President, Jenner Motors Co. Ltd.
K. L. MacFadyen, Calgary, Alberta, Vice-President — Comptroller, Northwestern Utilities, Limited
J. E. Maybin, Calgary, Alberta, President, Northwestern Utilities, Limited
A. R. McBain, Edmonton, Alberta, President, McBain Camera Specialty Ltd.
W. S. McGregor, Edmonton, Alberta, President, Numac Oil & Gas Limited
J. L. McIntyre, Edmonton, Alberta, President, John L. McIntyre Insurance Ltd.
R. M. Parsons, M.D., Red Deer, Alberta, Parsons Clinic
J. M. Seabrook, Salem, New Jersey, Chairman and President, International Utilities Corporation
A. G. Stewart, Edmonton, Alberta, Senior Partner, Stewart, Weir, Stewart & Watson
M. E. Stewart, Philadelphia, Pa., President, General Waterworks Corporation
D. K. Yorath, Edmonton, Alberta, Chairman of the Company, Northwestern Utilities, Limited

Honorary Director

O. C. McIntyre, Edmonton, Alberta, President, Capital City Box Co. Ltd.

Officers

D. K. Yorath, Chairman of the Company
M. E. Stewart, Vice-Chairman
J. E. Maybin, President
K. L. MacFadyen, Vice-President — Comptroller
D. B. Collier, Vice-President and General Manager
R. N. Dalby, Vice-President Marketing
J. H. Pletcher, Vice-President Gas Supply
B. W. Snyder, Vice-President Engineering and Rate Administration
C. L. Metcalfe, Secretary and Treasurer
J. E. Roberts, Assistant Secretary
B. T. Banks, Assistant Treasurer

HIGHLIGHTS IN REVIEW

	1968	1967	1966	1965	1964	1958
Customers at Year End	130,047	125,124	121,218	117,254	113,644	83,526
Natural Gas Sales . . (thousands of cubic feet)	83,949,345	86,279,958	79,628,406	75,362,046	66,787,045	48,714,113
Revenue	$27,220,156	$27,161,182	$26,065,641	$24,808,726	$22,353,888	$12,005,089
Net Income	$3,648,192	$ 3,261,915	$ 3,588,652	$ 3,915,085	$ 3,256,307	$ 2,246,351
Earnings Per Common Share . . .	$ 1.90	$ 1.67	$ 1.86	$ 2.06	$ 1.67	$ 1.07
Gross Additions to Plant — Annual . .	$ 4,509,789	$ 4,267,731	$ 3,272,209	$ 5,336,280	$ 3,154,843	$ 7,423,831
Gross Plant	$96,309,833	$92,545,009	$88,725,006	$85,740,026	$80,689,599	$58,922,609
Miles of Pipeline . .	3,812	3,303	3,044	2,959	2,795	2,159
Maximum Daily Demand . . . . . . (thousands of cubic feet)	495,191	426,647	395,486	384,918	426,741	250,580
Communities Served .	109	103	92	85	84	58
Population Served . .	554,000	530,000	512,000	499,000	470,000	348,000

45th ANNUAL REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

The results of the company's 1968 operations are much more encouraging than they appear at first glance. The operating revenue received in 1968, $27,220,000, is only a very slight increase over the previous year's. The revenue for the year 1967, however, contained an $800,000 non-recurring sales item, and after adjusting for this and the slight influence of weather on the results of the two years, it is evident that a sales market growth in excess of $1 million occurred during 1968.

Operating expenses, including depreciation and taxes, were reduced by $150,000, to give a 1968 total of $22,456,000. The reduction was accomplished as a result of the opportunity which existed in 1968 to make a special arrangement for the disposition of a substantial amount of the oilfield residue gas. In place of this gas, which the company normally would be obligated to purchase and absorb into its system, the company substituted its own production.

The reduction in operating expenses, together with a $193,000 profit realized on the sale of securities which had been part of the company's short-term investments, resulted in a $387,000 increase in net income compared to 1967. After payment of preferred dividends, this is equivalent to $1.90 per common share. The 1967 earnings per common share were $1.67.

There is no doubt that 1968 was a very encouraging year when measured in terms of the upswing in population increases in the area served, the highest increase in customers in recent years, and the very promising outlook for future development in central and northern Alberta and the vast neighboring territory to the north. The Year in Review section of our annual report features this bright outlook and the effect it is having on the construction and investment activity in Edmonton.

On March 25, 1968, the Board appointed J. E. Maybin, president; D. B. Collier, vice-president and general manager; B. W. Snyder, vice-president – engineering and rate administration; R. N. Dalby, vice-president – marketing; and J. H. Pletcher, vice-president – gas supply. Mr. Collier also became a director of the company at that time. Also on March 25, O. C. McIntyre of Edmonton, after 19 years of service, retired from the Board, and in recognition of his valued assistance over the years, was appointed the company's first honorary director. At the same time W. S. McGregor of Edmonton, president and managing director of Numac Oil and Gas Ltd., joined the Board as a new director. M. E. Stewart, the former president of the company, who has assumed new duties in Philadelphia as president of General Waterworks Corporation, was appointed vice-chairman and continues as a director of this company.

Later in the year, Howard Butcher III tendered his resignation and upon acceptance of this resignation, the Board expressed its sincere regrets at losing the services of a man who has contributed so much to the progress of the company.

The directors wish to record their appreciation to the staff for its excellent work during 1968, and to the management for its efficient supervision of the company's operations. Their efforts made possible the fine record of service to all those in the company's territory.

By order of the Board of Directors,

D. K. Yorath

J. E. Maybin

D. K. Yorath, Chairman

J. E. Maybin, President

February 18, 1969

THE YEAR IN REVIEW

GAS SALES

Natural gas sales in 1968 were 83.9 billion cubic feet, a decline of 2.3 billion cubic feet from 1967. The major reason for the apparent decline was a large short-term sale in 1967 for which there was no comparable sale in 1968.

The short-term non-recurring sale referred to in 1967 amounted to 4.9 billion cubic feet and was the result of a special arrangement to facilitate the starting up of the Great Canadian Oil Sands refinery.

Temperature has a significant effect on sales to residential and commercial customers who use natural gas primarily for space heating. As the average temperature in 1968 was warmer than in 1967 this adversely affects year to year comparison of sales to these classes of customers.

After making adjustments for the effect of warmer than normal weather in 1968, and the special sale in 1967 and some extraordinary 1967 supplementary sales to the City of Edmonton Power Plant, the natural gas sales increase for 1968 due to basic market growth was approximately 6 per cent.

The following table shows sales by class of customer in 1968:

	Billion Cubic Feet	Percent of Total
Residential	23.5	28
Commercial	26.6	32
Industrial	33.8	40
	83.9	100%

During the year 4,923 new customers were added, bringing the total at the end of the year to 130,047. This is the largest annual increase in the past six years. The company's rural service program contributed to the customer increase with an all-time high of 1,121 rural service installations being made, for which 434 miles of plastic pipe were installed.

In 1968 natural gas was provided to six additional communities, bringing the total served by the company to 109 communities in Central Alberta, including the cities of Edmonton, Red Deer, Camrose and Wetaskiwin.

A new record for the volume of gas sent out in one day was established on Dec. 28. The send-out that day reached 495 million cubic feet, some 68 million cubic feet higher than the 1967 peak day, and 29 million cubic feet higher than the previous record, established in February, 1968. The average temperature on Dec. 28 was 28.8 degrees below zero, and the average wind velocity was 15.7 miles an hour.

MARKET POTENTIAL

Alberta is a land of opportunity as expansion in resource industries continues at record levels. In 1968 more and more people settled in the province and construction activity soared to all-time records.

Much of this growth took place in the territory served by Northwestern Utilities. Population served by the company increased by 24,000 to 554,000. Alberta's largest city, Edmonton, was the fastest-growing city in Canada with a growth rate of 4.2

Constantly building for an ever-growing student population which may reach 21,000 by 1970, is the University of Alberta at Edmonton. In 1968 alone three major buildings were completed for a cost of $13.5 million. Our photograph shows the east wing of the Biological Sciences Centre complex, a $20.8 million project due for completion in 1970.

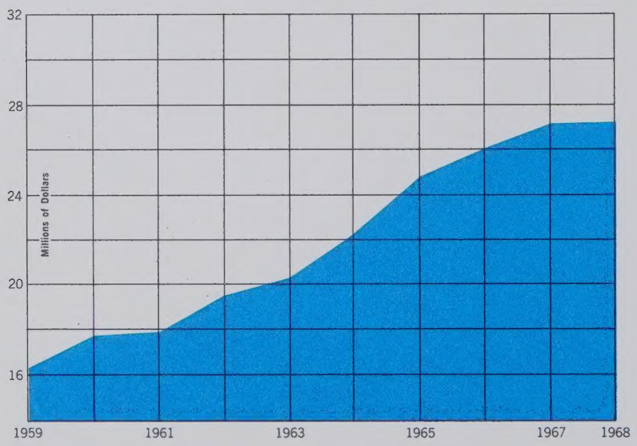
per cent. The city's population increased by 16,500 to 410,000 at the end of 1968.

Building permits in Edmonton reached an all-time record of $166 million, an increase of $25 million over 1967. This is the fifth consecutive year that Edmonton has set one year construction records. In the past six years Edmonton building permits totalled more than $700 million, a figure equal to all the building permits issued in the 55 years prior to that . . . back to 1905 when Alberta became a province.

In spite of tight money and high mortgage interest rates residential construction rose substantially in 1968 over the level of the previous three years. In apartment construction building permits were issued for 284 buildings with a value of $37.4 million. These will house 5,723 dwelling units, an increase of nearly 50% over 1967, the previous all-time record. An increase of 35% over 1967 was recorded in the number of permits for residential dwellings. These numbered 2,728 for a value of $43 million.

The actual number of dwelling units completed for occupancy in 1968, including those started late in 1967, was 7,688, also a record.

REVENUE



Continuation of this high level of construction activity is assured with a number of major developments already announced. Among them are a $25 million shopping centre, Western Canada's largest; a $10 million courthouse and a number of major office buildings.

In today's society technical and professional skills are more than ever needed. Keeping pace with the growth of the area and its industry are the educational facilities, the largest of which is the University of Alberta with 15,300 students. Enrollment has doubled in the past five years . . . and tripled in the past 10 years.

The University of Alberta at Edmonton represents a plant investment in buildings and facilities of $140 million today. The university's building program to 1972, either committed or planned, calls for an expenditure of a further $125 million. This program is destined to make the University of Alberta one of the continent's finest centres of higher learning.

It is interesting to note the university and its student population add $100 million a year to the economy of the city and Central Alberta.

The industrial and commercial development of the area has shown no signs of slackening as resource development surges to the fore.

Of prime interest is the development of Alberta's vast oil and gas resources. In 1967, the last year for which complete figures are available, Alberta produced 230 million barrels of crude oil and 1,242 billion cubic feet of natural gas. Conventional oil production is now around 800,000 barrels a day, and could reach 2.8 million barrels a day by 1980. Capital expenditures in field equipment in 1967 were $74.5 million, and for gas plants $87.3 million.

A major development of the industry is the announcement of Gulf Oil that it will build an 80,000 barrel per day refinery on the eastern outskirts of Edmonton at a cost of $75 million. Another major oil company is expected to consolidate its Western Canada refinery operations in the Edmonton area.

The Athabasca oil sands of northern Alberta continue to attract the interest of major concerns and additional extraction plants undoubtedly will be authorized. One proposal is for a $20 million plant which will produce up to 8,000 barrels a day using a newly developed in situ process. Depending on the timing of further government authorizations investment in oil sands projects could run as high as $1 billion in the next 10 years.

Alberta's vast reserves of coal are also under intense development as a result of huge Japanese contracts. The total value of these Western Canadian contracts was recently estimated at $1.5 billion.

Most of this is for coal in Central Alberta and the Crowsnest Pass region.

Recently the Japanese signed a $200 million contract with Luscar Limited for one million long tons of coking coal a year for a 15-year period. Luscar will build a $10 million preparation plant at its mine 70 miles southwest of Edson. Other interests have contracted for an initial volume of 45 million long tons of coking coal over a 15-year period from MacIntyre Coal Mines Ltd. in the Smoky River area, about 70 miles northwest of Hinton.

Large volumes of coal already are being shipped from the Crowsnest Pass region of Alberta and adjoining areas of British Columbia. A further $50 million contract was recently announced by Canmore Mines Limited at Canmore, near Banff.

Alberta's huge timber resources are also coming in for additional development. Northwest Pulp and Paper plans a $60 million expansion for the early 1970's, increasing capacity of its plant at Hinton from 600 tons to 1,300 tons a day. A subsidiary of Procter and Gamble Company Limited is investigating a 600-ton pulp mill at Grande Prairie and MacMillan Bloedel, which has leases on woodlands in the Whitecourt area, plans to build a $50 million newsprint mill.

Related industries have similar exciting prospects. A report of the Alberta government, for example, cites the plastics industry: "The outlook is remarkably bright. Some producers are predicting an increase of almost 800% in plastics consumption in Canada by 1980." Alberta plants produce much of Canada's plastic pipe, as well as plastic containers of all kinds.

All of this development has had an immense effect on the growth of natural gas sales. Increasing population and growth in housing construction have resulted in substantial annual increases in residential natural gas sales. Commercial and industrial business continues to develop.

The most significant new addition to the company's industrial growth is the $50 million fertilizer plant of Imperial Oil Limited at Redwater, 32 miles northeast of Edmonton. This plant, under construction in 1968, will commence operation in 1969. It will be the second largest industrial gas customer on Northwestern's system.

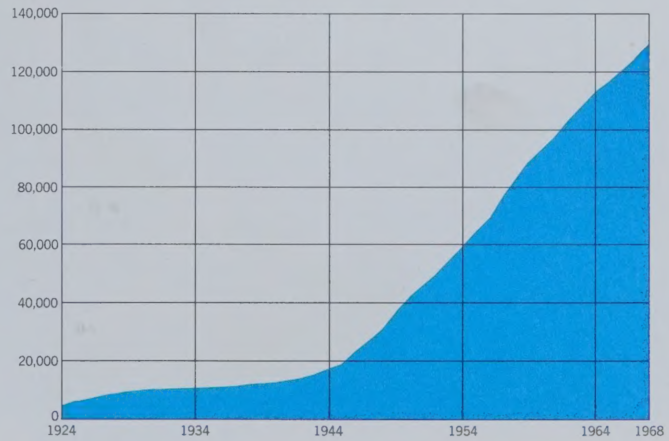
Natural gas is the energy source for electrical power used in the City of Edmonton, and the city's power plant is the company's largest customer. Large increases in sales will continue into the future. The City of Edmonton has under construction a new power plant which will be fueled with natural gas. It is expected first deliveries of natural gas will be made to this plant in 1971.

New industries are constantly coming to Edmonton, and existing industries continue to expand. In the latter case, for example, is the plant of Steel Company of Canada which has installed a new walking beam furnace, resulting in an increased gas load of 1.5 million cubic feet per day. A new major customer is a furniture factory whose paint curing and drying facilities are among the largest in Western Canada. Packing plants are increasingly installing natural gas engines for refrigeration-compression.

Capital investment in Edmonton and Calgary in 1968 was second only to Toronto, Hon. A. R. Patrick, Minister of Industry and Development, reported to the Alberta Legislature. Mr. Patrick said more than 150 new industries had located in the province in 1968, bringing an investment of $300 million, and providing 1,600 new jobs.

Edmonton's future is secure. Already Alberta's largest city and the site of the West's leading refineries, its role as the supply and transportation centre for Northern Canada is assured. Through Edmonton, by air, by rail and by road, go the men with the technical skills and the supplies and equipment which are now beginning to develop the immeasurable potential of Canada's largest frontier.

CUSTOMER GROWTH



GAS SUPPLY

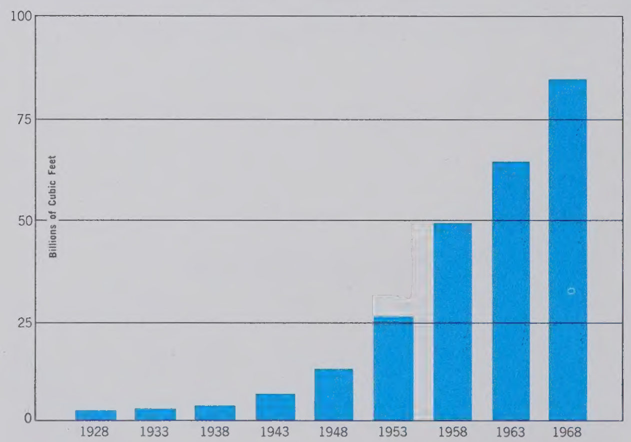
At December 31, 1968 marketable gas reserves in fields connected to Northwestern Utilities' system were estimated to be 3,751 billion cubic feet, an increase over the previous year's estimate due to new evaluations of existing fields made during 1968.

During the past year approximately 79% of Northwestern's total market requirement was available from gas processing plants in oil and gas fields connected to Northwestern's system. The type of market served by Northwestern cannot utilize such a high proportion of this type of gas efficiently and as a result an arrangement was negotiated under which Alberta and Southern Gas Co. Ltd. would purchase approximately 20 billion cubic feet, deliveries under which commenced in 1968 and will continue into 1969. In 1968, 11.8 billion cubic feet of residue gas were delivered to Alberta and Southern at the interconnection between our system and Alberta Gas Trunk Line in the Pembina area.

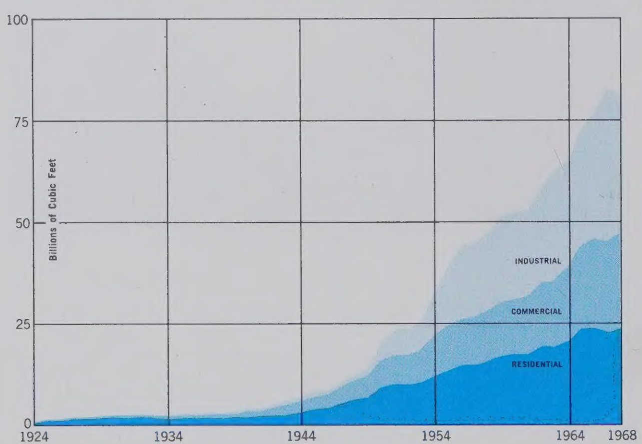
The temporary over-supply of oil field residue gas to our system was mainly caused by the continuing high demand for Alberta crude oil and the discontinuation of a major miscible flood scheme in the Pembina field, which previously utilized a large volume of residue gas. By 1970 we expect to be able to utilize all the available oil field gas to meet our expanding market requirements.

The dry gas fields, Viking-Kinsella, Beaverhill Lake, Fort Saskatchewan, Fairydell-Bon Accord, Bretona and a number of minor sources, supplied 32% of the system's annual requirements. This gas was mainly produced during the winter heating season to meet the important heavy requirements of our system during cold weather. On our peak day, which occurred on December 28, these dry gas fields provided 58% of the total system requirement.

ANNUAL GAS SALES



ANNUAL GAS SALES BY CUSTOMERS



NEW CONSTRUCTION

Capital expenditures in 1968 were $4,510,000. More than half of this total, or approximately $2,700,000, was expended on extensions to the system to connect new customers. A total of 490 miles of new gas mains was added to existing distribution systems for this purpose. The rural services program had its biggest year in the company's history. This program cost $1,402,000, and in addition $148,000 was spent on connecting new communities.

At the year-end the company's pipeline network totalled 3,812 miles in Central Alberta, consisting of 231 miles of field gathering lines, 1,348 miles of transmission lines and 2,233 miles of distribution lines.

Capital expenditures for 1969 are forecast at $5,000,000. Customer increase is estimated at 4,700, most of which will occur in urban communities.

Production expenditures are forecast at $400,000, including the connection of five new wells in the Beaverhill Lake area, 35 miles east of Edmonton. This will increase the capability of the system to meet the growing peak demands.

The rural service program will be continued, but the company does not expect to repeat the exceptional record of 1968. Nevertheless a substantial program of 800 new rural customers, at a cost of $1,100,000, has been forecast.

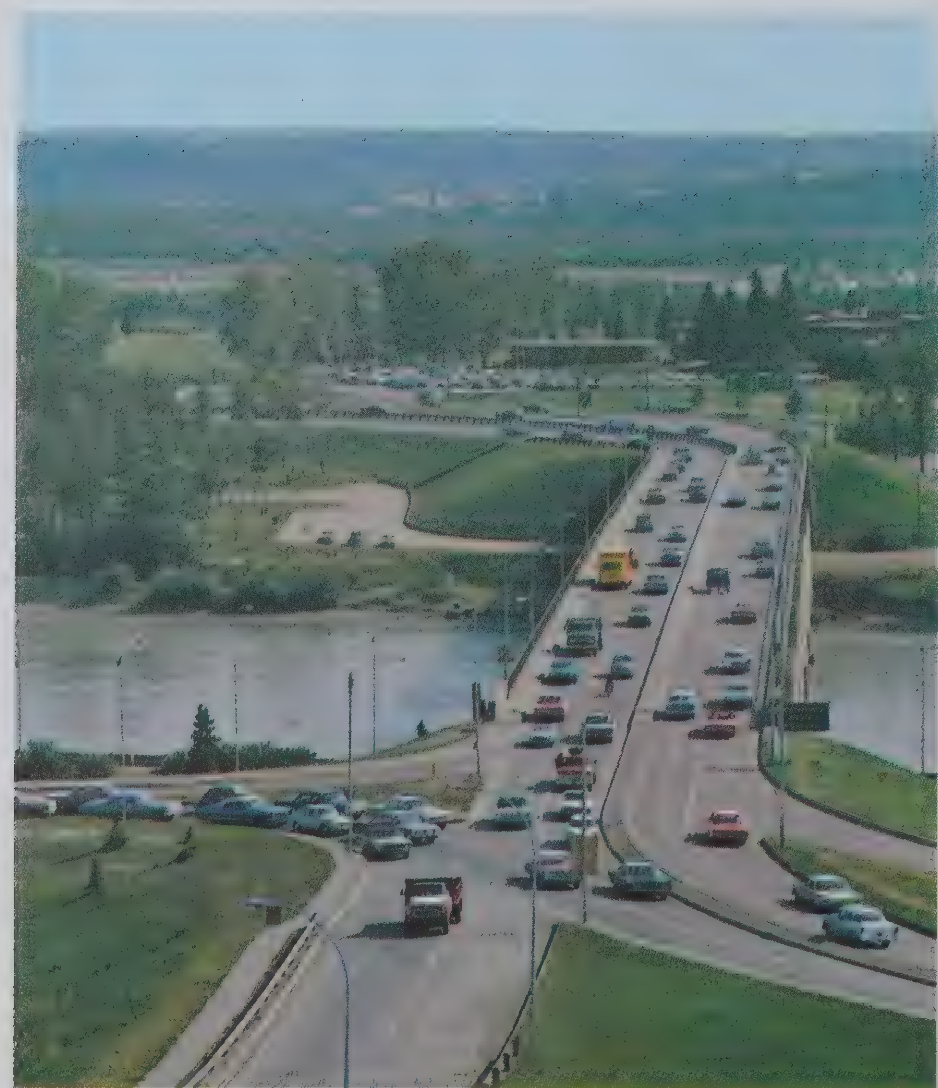
STAFF

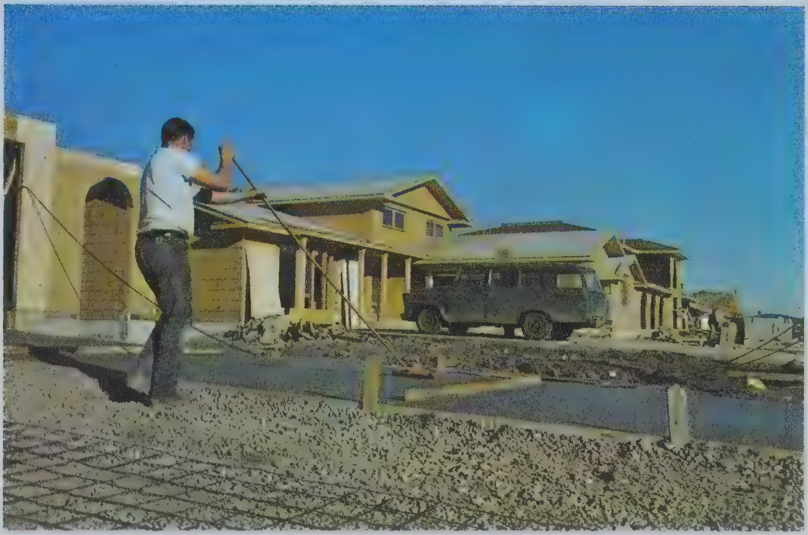
Despite the fact that the number of customers served continues to rise substantially year by year, and consequently the work load required to serve them, the company's work force remains relatively stable. At Dec. 31, 1968, there were 616 full-time employees on the company's staff, up only slightly from a year ago.

The University of Alberta at Edmonton is continually building new facilities to meet rising student population. Current building program, either under construction or firmly committed, totals $63 million.

A beautiful city, with wide avenues and parkland, Edmonton was Canada's fastest growing city in 1968. Its population is now more than 410,000. On these pages are views of some of its office buildings, residences, its expressways and, bottom centre, a landscaped area in the heart of the city.

Immediately to the right is a view of the City Centre development, from the new post office building. Soon to be one of Canada's most architecturally exciting developments this view shows the City Hall on the left, an office building and a high-rise apartment.





Residential construction strives to keep pace with the growth in population. In 1968 a record 7,688 new dwelling units became available for occupancy, including an all-time high number of apartment suites.

Beauty spot in Edmonton is the North Saskatchewan River which bisects the city. Crowning the escarpment on both sides of the river are some of the buildings of the University of Alberta, at left, on the south side, and a recreation area and high rise apartments on the north side, at bottom.

University of Alberta facilities comprise not only adequate campus facilities, of which one building is shown above, but living quarters for both single and married students, such as the complex shown at right.

Industrial growth is exemplified by construction of the $50 million fertilizer plant at Redwater, left, and refineries, below. New and larger refineries are now in the planning stage.

New bridge in west end of city links north and south Edmonton, connecting with provincial highways. The $9 million project is one of the newest additions to the city's burgeoning system of freeways.

FINANCIAL STATEMENTS

NORTHWESTERN UTILITIES, LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Northwestern Utilities, Limited as of December 31, 1968, and the statements of income, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1968, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

Edmonton, Alberta
February 5, 1969.

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Edmonton, Alberta — Calgary, Alberta
Toronto 1, Ontario — Montreal 1, Quebec

AUDITORS

Peat, Marwick, Mitchell & Co.
1002 Empire Building, Edmonton, Alberta

BALANCE SHEET

December 31, 1968

(with comparative figures for 1967)

ASSETS	1968	1967
Fixed assets:		
Property, plant, leases, rights, gas wells and equipment subject to amortization and depreciation, at cost	$96,309,833	$92,545,009
Less accumulated amortization and depreciation	30,398,696	28,165,093
	65,911,137	64,379,916
Leases, wells and property rights, at cost less amount written off $330,000	218,620	228,620
Net fixed assets	66,129,757	64,608,536
Investments not having market quotations, at cost	981,286	981,686
Current assets:		
Cash	344,691	75,122
Short term investments, at cost	–	1,000,000
Marketable securities, at cost (quoted value $772,556; 1967 $691,090)	545,150	581,857
Accounts receivable	3,970,091	3,688,880
Due from affiliated companies	7,343	13,422
Government of Canada special refundable tax	54,888	87,500
Materials and supplies at or below average cost	812,115	734,121
Prepaid expenses	61,834	36,131
Total current assets	5,796,112	6,217,033
Unamortized debt discount and expense	508,792	541,710
Other deferred charges	–	53,625
Government of Canada special refundable tax, less current portion	48,954	98,759
	$73,464,901	$72,501,349

Approved on behalf of the Board:

D. K. YORATH, Director

J. E. MAYBIN, Director

LIABILITIES

		1968	1967
Capital stock and surplus:			
4% Cumulative preference shares (redeemable at the option of the company on thirty days' notice at $103 per share):			
Authorized—120,000 shares of a par value of $100 each	$12,000,000		
Issued—105,000 shares of a par value of $100 each		$10,500,000	$10,500,000
Common shares:			
Authorized—3,000,000 shares without nominal or par value, issuable for a maximum consideration of $7,500,000.			
Issued—1,700,000 shares without nominal or par value		4,250,000	4,250,000
Earned surplus (note 1)		19,167,389	18,149,197
		23,417,389	22,399,197
Total capital stock and surplus		33,917,389	32,899,197
Long-term debt (note 2)		26,812,500	28,503,750
Current liabilities:			
Demand bank loan		1,700,000	250,000
Accounts payable and accrued charges		1,647,757	1,787,375
Interest accrued on long-term debt		367,656	383,803
Long-term debt — current maturities (note 2)		1,218,250	1,221,250
Due to parent and affiliated companies		78,455	1,627
Dividend payable		1,870,000	1,870,000
Income taxes accrued (note 3)		783,502	1,054,485
Other taxes accrued		1,432,250	1,363,799
Total current liabilities		9,097,870	7,932,339
Consumers' deposits		983,438	912,395
Reserves:			
Contributions for extensions		1,182,073	610,308
Deferred income taxes (note 4)		1,091,671	1,239,904
Miscellaneous		379,960	403,456
		2,653,704	2,253,668
		$73,464,901	$72,501,349

See accompanying notes.

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1968
(with comparative figures for 1967)

	1968	1967
Operating revenue:		
Natural gas sales	$27,075,631	$26,986,025
Gas transportation	144,525	175,157
	27,220,156	27,161,182
Operating expenses and taxes:		
Natural gas purchased	8,691,345	9,199,349
Operating	5,819,047	5,596,781
Maintenance	1,008,127	962,816
Directors' fees	14,300	14,400
Salaries of directors, officers and senior employees	224,242	164,257
Legal fees and disbursements	15,901	9,927
Taxes — income (notes 3 and 4)	2,430,000	2,500,000
Taxes — other than income	1,954,954	1,867,325
Depreciation exclusive of $166,187 included in operating and other accounts (1967 — $171,499)	2,297,780	2,290,857
	22,455,696	22,605,712
Net operating income	4,764,460	4,555,470
Other income:		
Gain on purchase of long-term debt	95,168	46,167
Gain on sale of marketable securities	193,280	14,478
Interest and dividends	139,036	174,935
Miscellaneous	51,778	32,510
	479,262	268,090
	5,243,722	4,823,560
Income deductions:		
Interest on long-term debt	1,528,161	1,483,116
Interest on loan from parent company	—	42,096
Other interest	31,380	1,930
Debt discount and expense amortized	32,918	31,432
Premium on bonds redeemed	3,071	3,071
	1,595,530	1,561,645
Net income	$ 3,648,192	$ 3,261,915

See accompanying notes.

STATEMENT OF EARNED SURPLUS

YEAR ENDED DECEMBER 31, 1968
(with comparative figures for 1967)

	1968	1967
Balance at beginning of year	**$18,149,197**	$17,517,282
Add net income	**3,648,192**	3,261,915
	21,797,389	20,779,197
Deduct dividends:		
4% cumulative preference shares	**420,000**	420,000
Common shares	**2,210,000**	2,210,000
	2,630,000	2,630,000
Balance at end of year	**$19,167,389**	$18,149,197

See accompanying notes.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1968
(with comparative figures for 1967)

	1968	1967
Funds provided by:		
Operations:		
Net income for the year	**$ 3,648,192**	$ 3,261,916
Add depreciation and other charges, less credits, not involving cash	**2,752,248**	2,500,046
	6,400,440	5,761,962
Proceeds from disposal of fixed assets	**76,926**	98,988
Increase in non-current consumer deposits	**71,043**	52,373
Proceeds of 6½% first mortgage sinking fund bonds, Series I, less expenses of issue	**—**	4,922,738
Increase in contributions for extensions	**571,765**	126,597
Government of Canada special refundable tax	**49,805**	43,290
Total funds provided	**7,169,979**	11,005,948
Funds applied to:		
Payment of dividends	**2,630,000**	2,630,000
Additions to fixed assets	**4,411,685**	4,116,261
Reduction of long-term debt	**1,691,250**	1,763,750
Other	**23,496**	113,704
Total funds applied	**8,756,431**	8,623,715
Increase (decrease) in working capital	**$ (1,586,452)**	$ 2,382,233

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1968

1. The 3⅞% promissory notes and the trust deed securing the first mortgage bonds impose certain restrictions on the payment of dividends and management fees and upon the redemption or repayment of the company's preference and common shares.

2. Long-term debt:
   The long-term debt consists of the following:

	Amount Outstanding December 31 1968	Current Maturities
First mortgage sinking fund bonds:		
Series B — 3½%, due December 15, 1971	**$ 1,063,750**	$ 204,750
Series C — 3½%, due December 15, 1971	**514,000**	91,000
Series D — 3⅝%, due December 15, 1971	**1,485,000**	227,500
Series E — 3⅝%, due December 15, 1975	**2,215,000**	205,000
Series F — 4¾%, due January 15, 1979	**2,430,000**	180,000
Series G — 5⅜%, due April 15, 1983	**5,178,000**	—
Series H — 5¾%, due March 1, 1988	**10,095,000**	—
Series I — 6½%, due May 1, 1992	**4,870,000**	130,000
Notes payable — 3⅞%, due September 1, 1969	**180,000**	180,000
	28,030,750	1,218,250
Deduct current maturities	**1,218,250**	
Long-term debt less current maturities	**$26,812,500**	

   The funded debt outstanding at December 31, 1968, is stated after deducting $197,000 Series G and $330,000 Series H bonds which have been purchased by the company for future sinking fund payments.

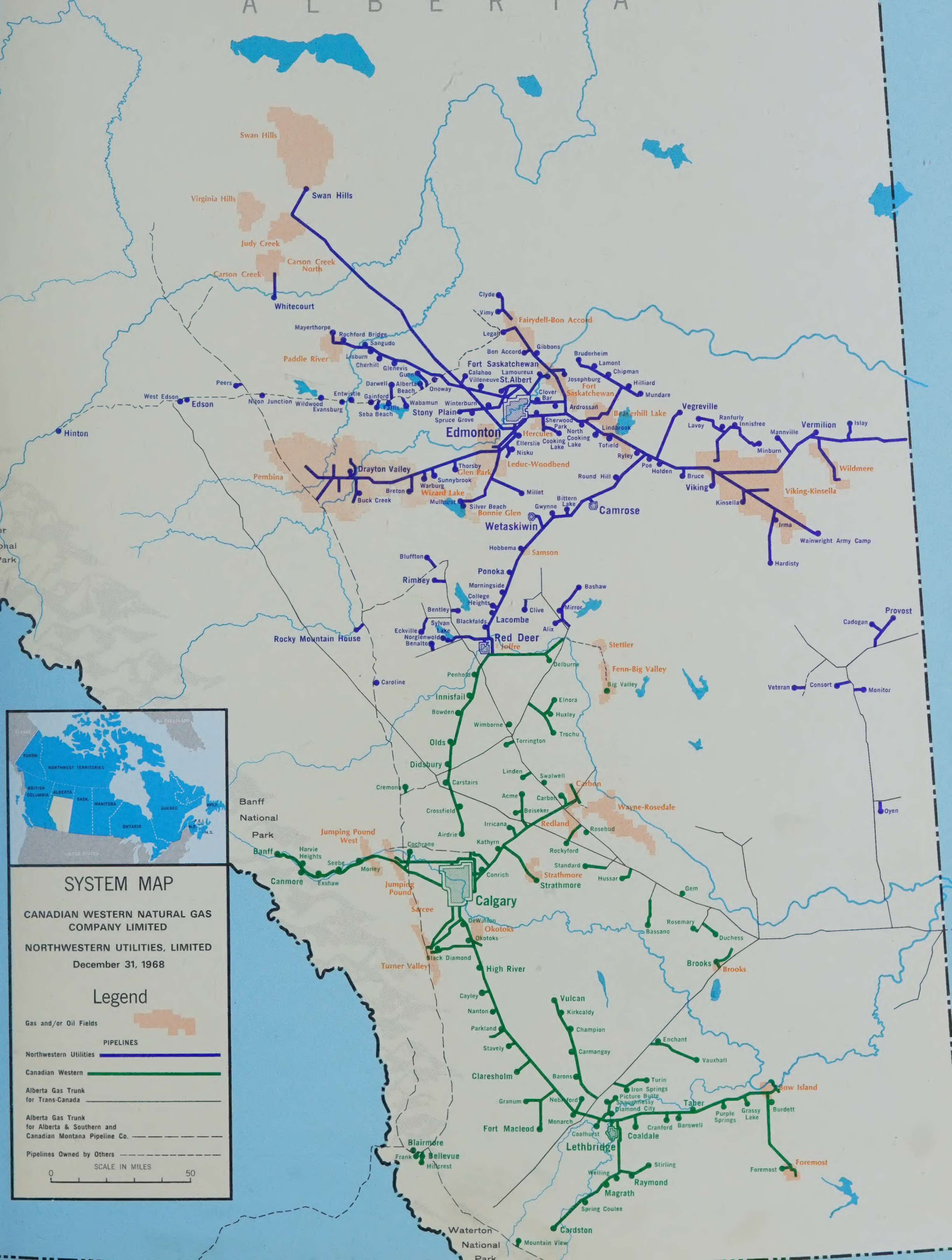
3. When computing taxable income for the years 1954 to 1961, inclusive depreciation was claimed at maximum rates permitted by the Income Tax Act (being a greater allowance than that provided for in the accounts of the company) which effected a postponement in income taxes to future years of a total amount of $1,851,000. From 1962 to 1967 inclusive, the company claimed depreciation for tax purposes only to the extent that depreciation was provided for in its accounts. In 1968, the company, at the specific request of the City of Edmonton, reverted to the procedures used in the years 1954 to 1961 inclusive and thereby effected a further postponement in income taxes to future years of $146,000.

   Except for the matter referred to in note 4, in fixing rates, the company is permitted by the Public Utilities Board of the Province of Alberta to recover only taxes payable currently. Accordingly, the company has not recorded in its books the deferral of income taxes of $146,000 for the current year and the aggregate deferral, including the total amount in respect of the years 1954 to 1961 inclusive, amounted to $1,997,000 at December 31, 1968.

4. During 1962 and subsequent years the company acquired certain natural gas rights for its utility system which, under 1962 amendments to the Income Tax Act, must be claimed against income in the year in which payment therefor has been made. Consequently the company claims such items for tax purposes in the year of payment which effects a postponement in income taxes to future years. From 1962 to 1966 these amounts were used to reduce reported income tax expense as the amortization of the assets was charged against income.

   In 1967, the company, at the specific request of the City of Edmonton, agreed to amortize the January 1, 1967 deferred income taxes of $1,262,236 over the next 10 years and to similarly amortize any deferrals created in the future over a 10-year period. If this change had not been implemented, deferred income taxes as of December 31, 1968 would have been $1,200,427 instead of $1,091,671 reported on the balance sheet at that date and the reported income for the year ended December 31, 1968 would have been reduced by $69,300, and the aggregate accumulated reported income to December 31, 1968 would have been reduced by $108,756.

5. The company, together with certain of its affiliated companies, has in effect a pension plan covering substantially all of its employees. At December 31, 1968, the company's share of the aggregate unfunded liability for past service costs under the plan amounted to approximately $723,000. Such unfunded liability, generally, is being absorbed as a charge against income on a basis which will result in the amortization of the amount over a period of approximately 10 years. During 1968 approximately $231,000 was charged against income in respect of current services and in respect of the amortization of the unfunded liability for past service costs.



ALBERTA
SYSTEM MAP
CANADIAN WESTERN NATURAL GAS COMPANY LIMITED
NORTHWESTERN UTILITIES, LIMITED
December 31, 1968
Legend
Gas and/or Oil Fields
PIPELINES
Northwestern Utilities
Canadian Western
Alberta Gas Trunk for Trans-Canada
Alberta Gas Trunk for Alberta & Southern and Canadian Montana Pipeline Co.
Pipelines Owned by Others
SCALE IN MILES
0
50
YUKON
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
SASK.
MANITOBA
ONTARIO
QUEBEC
Swan Hills
Virginia Hills
Judy Creek
Carson Creek North
Carson Creek
Whitecourt
Clyde
Vimy
Fairydell-Bon Accord
Legal
Gibbons
Bon Accord
Bruderheim
Lamont
Chipman
Hilliard
Mundare
Mayerthorpe
Rochford Bridge
Sangudo
Paddle River
Lisburn
Cherhill
Glenevis
Gunn
Fort Saskatchewan
Calahoo
Lamoureux
Villeneuve
St. Albert
Josephburg
Fort Saskatchewan
Peers
Darwell
Alberta Beach
Onoway
Entwistle
Gainford
West Edson
Edson
Niton Junction
Wildwood
Evansburg
Seba Beach
Wabamun
Winterburn
Stony Plain
Spruce Grove
Clover Bar
Ardrossan
Beaverhill Lake
Vegreville
Lavoy
Ranfurly
Innisfree
Mannville
Vermilion
Islay
Hinton
Edmonton
Sherwood Park
North Cooking Lake
Cooking Lake
Hercules
Ellerslie
Nisku
Lindbrook
Tofield
Ryley
Minburn
Leduc-Woodbend
Poe
Holden
Bruce
Viking
Wildmere
Pembina
Drayton Valley
Thorsby
Glen Park
Sunnybrook
Warburg
Breton
Wizard Lake
Buck Creek
Mulhurst
Silver Beach
Bonnie Glen
Millet
Round Hill
Bittern Lake
Gwynne
Camrose
Kinsella
Viking-Kinsella
Irma
Wainwright Army Camp
Wetaskiwin
Hobbema
Samson
Hardisty
Bluffton
Rimbey
Ponoka
Morningside
College Heights
Bashaw
Clive
Mirror
Bentley
Blackfalds
Lacombe
Alix
Eckville
Sylvan Lake
Norglenwold
Benalto
Rocky Mountain House
Red Deer
Joffre
Stettler
Fenn-Big Valley
Big Valley
Provost
Cadogan
Penhold
Delburne
Caroline
Veteran
Consort
Monitor
Innisfail
Bowden
Elnora
Huxley
Trochu
Wimborne
Torrington
Olds
Didsbury
Linden
Swalwell
Carstairs
Cremona
Acme
Carbon
Beiseker
Wayne-Rosedale
Crossfield
Oyen
Banff National Park
Jumping Pound West
Irricana
Redland
Rosebud
Airdrie
Kathyrn
Rockyford
Banff
Harvie Heights
Cochrane
Seebe
Morley
Canmore
Exshaw
Conrich
Standard
Strathmore
Hussar
Jumping Pound
Gem
Calgary
Sarcee
DeWinton
Okotoks
Rosemary
Bassano
Duchess
Turner Valley
Black Diamond
High River
Brooks
Cayley
Vulcan
Nanton
Kirkcaldy
Parkland
Champion
Stavely
Carmangay
Enchant
Vauxhall
Claresholm
Barons
Turin
Iron Springs
Picture Butte
Shaughnessy
Diamond City
Bow Island
Granum
Nobleford
Taber
Purple Springs
Grassy Lake
Burdett
Fort Macleod
Monarch
Coalhurst
Cranford
Barnwell
Coaldale
Lethbridge
Blairmore
Frank
Bellevue
Hillcrest
Stirling
Foremost
Welling
Raymond
Magrath
Spring Coulee
Cardston
Waterton National Park
Mountain View